HOUSING MARKET OUTLOOK

Canada Mortgage and Housing Corporation
www.cmhc.ca

New Home Market

Demand for single-family units fuelled by employment and wage growth

CMHC is forecasting single-family starts will slow only slightly from the brisk pace set in 2005 when 751 single-family units were started. In 2006 and 2007, there will be 700 single dwelling starts reflecting strong demand for this housing form. (See Figure 1) Demand for these units will be fuelled by employment and wage growth as well as steady in-migration. Consumer confidence will also be buoyed by these factors. Rising prices and modestly higher mortgage interest rates will have little effect on demand.

In 2004 and 2005, Saskatoon saw historically high levels of single-family units under construction. Our survey indicated that, in any month of 2005, for example, there was an average of 373 units at various stages of construction.

Saskatoon builders experienced an average absorption rate of more than 62 single units monthly in 2005, the highest absorption rate recorded since 1988 when single-family absorptions reached an average rate of 74 units monthly. Builders and land developers have been able to keep pace with demand as the supply of single-family homes (defined as including units under construction and units completed and unoccupied) is sufficient to last just over seven months.

We expect these balanced market conditions to persist in 2006 and 2007. Balanced markets are characterized by neither over or under-supply. Buyers can expect to move in to their completed unit in a reasonable time period and builders can maintain an inventory of homes with steady turnover.

Average price of new housing units up more than five per cent annually

Single-family average price will increase just over five per cent annually in 2006 and 2007, less than the 8.3 per cent seen in 2004 and the 6.8 per cent recorded in 2005. Land development costs, fees, taxes and rising materials costs will contribute to the rise in average price. An increasing proportion of sales are taking place in price ranges in excess of $200,000, thus contributing to the rise in average price. This trend is expected to continue in the forecast period but the amount of the increase should moderate as the market for homes in the higher-price ranges is depleted and buyers move to alternatives such as resale housing and homes in towns surrounding Saskatoon.

The average price per square foot for all types of single-family homes ended the year at $139.78. The average price per square foot of homes in Arbor Creek was $139.19. Briarwood homes saw average prices of $146.33, while Hampton Village units had average prices of $125.35 per square foot. Another subdivision with high activity was Willowgrove, where the average price per square foot was $148.84.

SASKATOON

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Resale Market 2
In 2006, the Saskatoon resale market will see a slight increase in existing housing sales to 3,400 units with similar sales volumes in 2007. Expect average prices to increase by 7.7 per cent in 2006 and 7.1 per cent to $167,000 in 2007. CMHC considers the Saskatoon existing housing market to have the characteristics of a balanced market with equal opportunity for both buyers and sellers to bring about a sale or purchase at a mutually-acceptable price.

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CMHC forecasts an average vacancy rate of 5.0 per cent in the October 2006 survey, declining to 4.8 per cent in October 2007. Employment and earning gains will encourage in-migration and household growth in 2006 and 2007 putting downward pressure on the average vacancy rate. Higher mortgage rates and prices will not completely counter the continued movement of renters to homeownership.

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60 YEARS ANS

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HOME TO CANADIANS

Condo market returns to empty-nester and senior buyer

After a drop of 62 per cent in multi-family construction in 2005, construction of semi-detached, row and apartment units will return to more measured pace, yielding 700 starts in each of 2006 and 2007. (See Figure 1)

In the period from 2002 to 2004, Saskatoon saw more than 1,100 row housing units started. These units were moderately-priced and, therefore, popular with first-time buyers and small investors. This market has now been, to a great extent, satisfied. We expect builders and developers will now turn their efforts to the more traditional market of empty-nesters and seniors.

As there were only eight row units started in the Saskatoon CMA in 2005, this housing form has been substantially reduced from the supply of new housing. Our latest count shows 13 row units at the construction stage. We expect these units will be absorbed upon completion. Our forecast calls for approximately 100 to 160 row units annually in the forecast period.

There were 102 semi-detached units started in 2005 and, at the time of writing, we are recording a nine month supply at the current absorption trend of six or seven units monthly. We expect a similar number of semi-detached starts in 2006 and 2007, maintaining the current status of this market.

At the current absorption trend, which ranges from 15 to 25 units monthly, the supply of condominium apartment units is in balance with demand. We expect the absorption trend to remain at this pace throughout 2006 and 2007 as it has during both 2004 and 2005. The number of apartment condominium units under construction peaked in mid-2005 at 419 units, its highest point since May 2004 when it reached 464 units.

Row housing activity winds down

CMHC recorded absorptions of 224 row condominiums in 2005, of which 54 per cent were sold in the $100,000 to $119,999 price range and about 37 per cent were in the $120,000 to $139,999 range. The average price was $121,193 in 2005. As all further starts will be on newly-developed land, we expect this average price to increase significantly to reflect the higher costs of land development. There have been a few row condominium starts in towns close to Saskatoon as builders attempt to build in the lower price ranges where demand has been proven to exist.

There were 203 apartment condominium absorptions recorded in 2005. Absorptions in the $140,000 to $199,999 price range dominate, capturing about 72 per cent of this submarket. These projects have elevators and feature underground parking. Most have balconies and many have additional features such as upgraded cosmetic finishes, concrete floors for sound-proofing, commons rooms and suites for guests. We expect the popularity of these apartment condominium projects to grow as a larger proportion of the population moves into older age groups.

Figure 1
Total Housing Starts

RESALE MARKET

Rising sales volumes in 2006 remaining constant in 2007

In 2006, the Saskatoon resale market will see a slight increase in existing housing sales to 3,400 sales with similar unit sales volumes in 2007. (See Figure 2) We expect escalating prices of new housing and increased listings in popular areas as move-up and condominium buyers dispose of their homes. This will encourage some home buyers to return to the resale market.

Overall, new listings will slip slightly in 2006 but maintain a constant pace in 2007. Although a fresh supply of listings will arise from move-up buyers, we expect out-migration to decline, resulting in slightly fewer listings. Single-family listings were up 6.4 per cent at the end of 2005 compared to year-end 2004.

At the end of 2005, seasonally-adjusted sales-to-active listing ratio was 30.5 per cent, up slightly from the end of 2004 when the ratio was 28.2 per cent. Considering the seasonally-adjusted supply of active listings and seasonally-adjusted monthly sales, there was a supply of listings sufficient to last three months. This changed slightly from year end 2004.

The Saskatoon Real Estate Board reports the average listing period for sales of single-family detached units at year-end 2005 was 38 days, up 8.6 per cent from the year-end 2004 figure of 35 days. Seasonally-adjusted figures suggest the average listing period is increasing. The December 2005 seasonally-adjusted listing period was up 12 per cent compared to the end of 2004. This is not necessarily an indication of a slower market as Board data confirms that sales of properties in higher-price ranges (of which there have been a higher proportion) require longer listing periods.

Average resale price to rise 7.7 per cent in 2006 and 7.1 per cent in 2007

CMHC expects average prices to increase by 7.7 per cent in 2006 and 7.1 per cent to $167,000 in 2006. The increase in the average price will stem from both an increase in the actual price of the benchmark house as well as a larger proportion of sales in higher price ranges.

Average price increased 9.2 per cent in 2005. This was the highest increase in the average resale price since 1997 when an increase of 11.5 per cent was recorded. The dollar volume of real estate sales increased 18.2 per cent in 2005. This is the highest increase since 1996 when the dollar volume of sales increased 28.2 per cent.

Looking at sales of existing residential dwellings by price range to December 2005, there has been a 52.3 per cent increase in the number of sales occurring in the $160,000 plus price range. The share of sales captured by this market has increased to 32 per cent of sales at year-end 2005 compared to only about 23.3 per cent of existing residential sales in 2004.

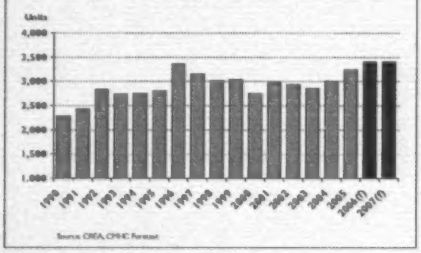
CMHC considers the Saskatoon existing housing market to have the characteristics of a balanced market with equal opportunity for both buyers and sellers to bring about a sale or purchase at a mutually-acceptable price.

Cost of home ownership escalating in 2006 and 2007

CMHC has calculated the potential principle and interest payments on a mortgage loan financing the purchase of a home selling at the average resale price. The mortgage would bear interest at the forecasted five year term rates for 2006 and 2007.

Our analysis determined that the monthly principle and interest would be about $950 in 2006 increasing 8.6 per cent in 2007 to approximately $1,032 monthly.

Figure 2
MLS® Annual Sales



Source: CREA, CMHC Forecast

RENTAL MARKET

Average vacancy rate inches up in 2006 but slips in 2007

CMHC forecasts an average vacancy rate of 5.0 per cent in the October 2006 survey, declining to 4.8 per cent in October 2007. Employment and earning gains will encourage in-migration and household growth in 2006 and 2007 putting downward pressure on the average vacancy rate.

Higher mortgage rates and prices will not completely counter the continued movement of renters to homeownership. The reintroduction of projects currently under renovation will also lead to some upward pressure on average vacancy. High vacancy rates in the Southwest have been shown to be persistent and properties currently under renovation may be in their rent-up stage at the time of the next survey having a further upward effect on the average vacancy rate.

Potential for rent increases restrained by plentiful supply

The competitive nature of the rental market produced by a plentiful supply of rental property and the availability of relatively inexpensive resale housing will restrain potential rent gains in 2006 and 2007. Operating and maintenance costs are increasing for all types of rental housing but the ability to obtain rent increases and the level of rent increases will depend on the household income in the area of the city where the project is located.

ECONOMIC OUTLOOK

Employment growth to moderate in 2006 and 2007

Employment growth in 2006 will moderate from the hectic pace seen in 2005 but CMHC expects that the close to 6,000 newly employed from 2005 will continue to drive housing demand in 2006. Our forecast calls for a further 2,450 additional employed in 2006 and a modest growth of 1,000 additional employed in 2007 adding support to housing demand. (See Figure 3)

Employment gains have been concentrated in the 25 to 44 age group. Full-time positions dominated the growth. These two characteristics would suggest that ownership would be the primary benefactor of these employment gains as home ownership is most often found in this age and income group.

During 2005, goods sector industries such as mining and manufacturing contributed to employment gains while service sector industries such as trade, health care and education and public administration also showed significant gains.

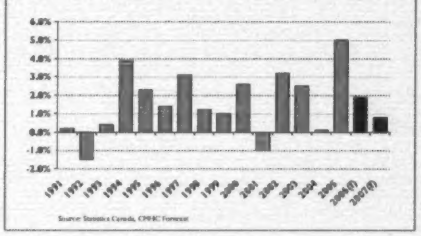
Gains in average weekly earnings provide evidence of income growth and give rise to escalation in housing demand. Average weekly earnings grew 7.8 per cent in 2005. Goods sector industries showed increases of 3.7 per cent while average weekly earnings in service sector industries jumped by 8.4 per cent.

Gains in average weekly earnings may also suggest an increasing scarcity of workers as employers are required to have fewer people work longer hours to maintain the pace of production. In fact, in 2005, Saskatoon had the fifth highest participation rate of all CMA's in Canada and the fourth highest employment rate confirming the scarcity of skilled labour.

Construction sector sees low unemployment

Turning to the construction sector, average employment gains were modest in 2005 and average weekly earnings declined but there are strong indications

Figure 3
Employment Growth



Source: Statistics Canada, CMHC Forecast

that firms are being increasingly hard-pressed to find skilled trades. The average participation rate for the construction industry reached 91 per cent in 2005, close to the previous peak of 92 per cent in 2002 and far in excess of the average for all industries. The number of unemployed construction trades people is at the historically low level of 500 persons and has been at this level for the last three years.

MORTGAGE RATE OUTLOOK

The monetary tightening cycle will continue at a moderate pace in the U.S. and Canada for the rest of 2006. Both short and long-term interest rates are expected to increase by 25-50 basis points in Canada and the U.S. during the remaining months of this year. While still low by historical standards, Canadian mortgage rates are expected to rise in line with corresponding interest rates in 2006. One and five-year mortgage rates are forecast to be in the 5.75-6.75 and 6.25-7.25 per cent range respectively in 2006.

CMHC FORECAST SUMMARY

Saskatoon Census Metropolitan Area
Spring 2006

	2003	2004	%Chg	2005	%Chg	2006(f)	%Chg	2007(f)	%Chg
RESALE MARKET									
MLS®(1) new listings (Monthly Avg.)	365	391	7.1%	409	4.6%	395	-3.4%	391	-1.0%
Total MLS® Sales	2,848	2,999	5.3%	3,246	8.2%	3,400	4.7%	3,400	0.0%
Average MLS® Price	$125,191	$132,549	5.9%	$144,787	9.2%	$156,000	7.7%	$167,000	7.1%
NEW HOME MARKET									
Starts									
Total	1,455	1,578	8.5%	1,062	-32.7%	1,400	31.8%	1,400	0.0%
Single-detached	676	753	11.4%	751	-0.3%	700	-6.8%	700	0.0%
Multiple-detached	779	825	5.9%	311	-62.3%	700	125.1%	700	0.0%
Average New House Price									
Single-family	$184,610	$199,877	8.3%	$213,464	6.8%	$225,000	5.4%	$236,500	5.1%
RENTAL MARKET									
Vacancy rate (Oct) -Per cent	4.5	6.3		4.6		5.0		4.8	
2-bedroom Rent (Annual Per Cent Chg)	1.6	0.7		0.0		1.7		1.7	
ECONOMIC OVERVIEW									
Mortgage rate (1 yr term)	4.84	4.59		5.06		6.27		6.41	
Mortgage rate (5 yr term)	6.39	6.23		5.99		6.78		6.93	
Employed	120,430	120,570	0.1%	126,550	5.0%	129,000	1.9%	130,000	0.8%
Employment growth (# jobs)		140		5,980		2,450		1,000	
Net-migration (Census Year)	-37	631		659		500		500	

Source: CMHC, Statistics Canada, Canadian Real Estate Association and the New Home Warranty of Saskatchewan, CMHC Forecast

1 Multiple Listing Service (MLS®) is a registered certification mark owned by the Canadian Real Estate Association.

CMHC – HOME TO CANADIANS

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